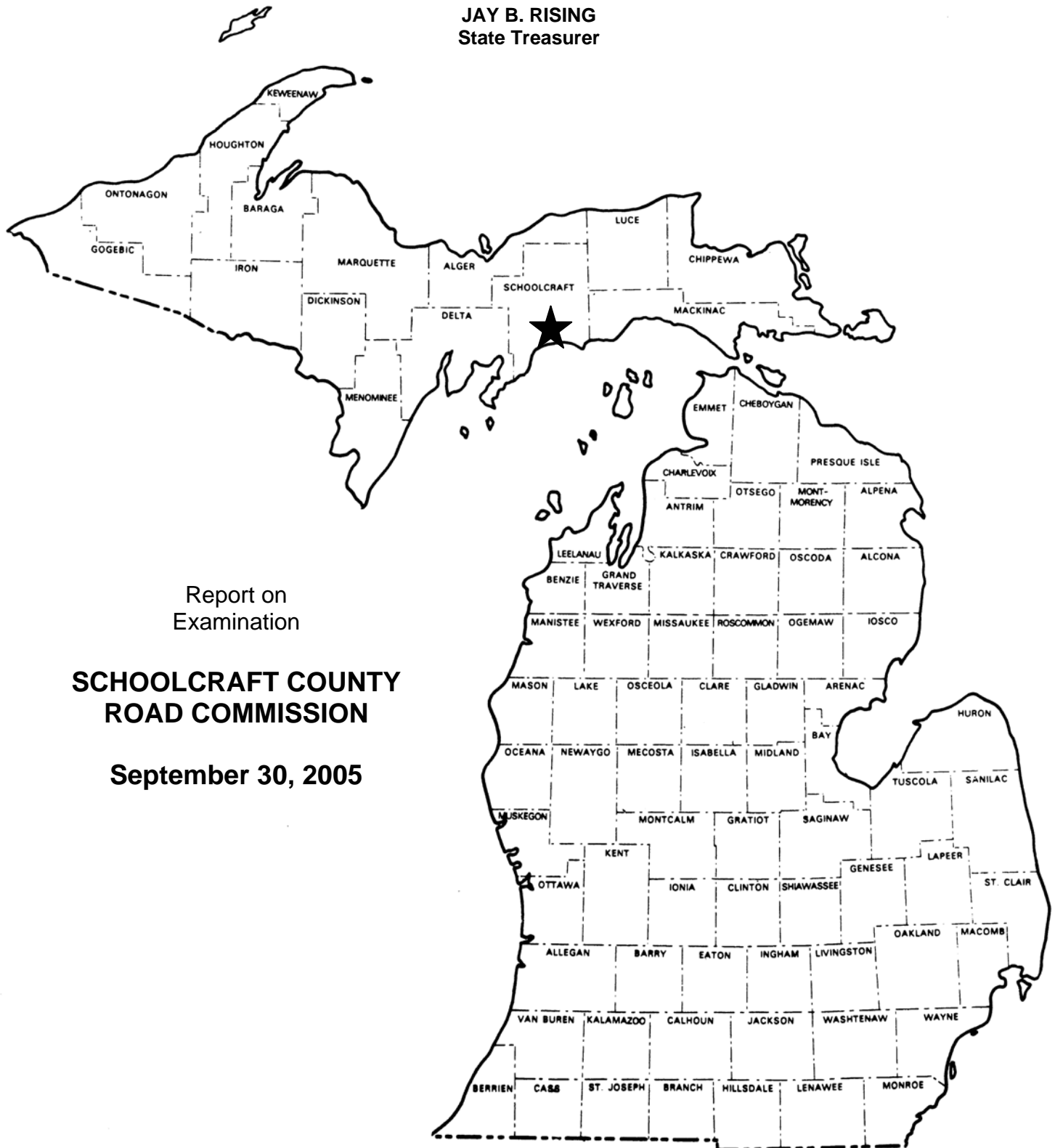


**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**

JAY B. RISING  
State Treasurer



Report on  
Examination  
**SCHOOLCRAFT COUNTY  
ROAD COMMISSION**  
**September 30, 2005**

Local Audit and Finance Division  
Bureau of Local Government Services

SCHOOLCRAFT COUNTY  
BOARD OF COUNTY ROAD COMMISSIONERS

Bernard J. Lund  
Chairperson

Gregory L. Hase  
Vice Chairperson

Thomas J. Klarich  
Member

Gregory M. Gaffney  
Engineer/Manager

Albert L. Vail  
Office Manager

COUNTY POPULATION--2000  
8,903

STATE EQUALIZED VALUATION—2005  
\$454,708,299



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

November 23, 2005

Board of County Road Commissioners  
Schoolcraft County  
P.O. Box 160  
Manistique, Michigan 49854

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Schoolcraft County Road Commission, a component unit of Schoolcraft County, Michigan, as of and for the year ended September 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Schoolcraft County Road Commission as of September 30, 2005 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 7 and budget comparison information in Exhibits G and H are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated November 23, 2005 on our consideration of the Schoolcraft County Road Commission's internal control over financial reporting and our test on its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Schoolcraft County Road Commission's basic financial statements. The accompanying supplemental and related information presented as Exhibits I through K is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	1
 <b>BASIC FINANCIAL STATEMENTS--GOVERNMENT-WIDE/GOVERNMENTAL FUND FINANCIAL STATEMENTS:</b>	
EXHIBIT A--Statement of Net Assets .....	8
EXHIBIT B--Statement of Activities .....	9
EXHIBIT C--Balance Sheet .....	10
EXHIBIT D--Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets .....	11
EXHIBIT E--Statement of Revenues, Expenditures and Changes in Fund Balance .....	12
EXHIBIT F--Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities.....	13
NOTES TO FINANCIAL STATEMENTS .....	14
 <b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
EXHIBIT G--Schedule of Revenues and Other Financing Sources Budgetary Comparison Schedule.....	28
EXHIBIT H--Schedule of Expenditures--Budget and Actual Budgetary Comparison Schedule.....	29
 <b>SUPPLEMENTAL SCHEDULES</b>	
EXHIBIT I--Analysis of Changes in Fund Balances .....	30
EXHIBIT J--Analysis of Revenues and Other Financing Sources .....	31
EXHIBIT K--Analysis of Expenditures .....	32
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <u>Government Auditing Standards</u> .....	33

# **SCHOOLCRAFT COUNTY ROAD COMMISSION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### Using this Annual Report

The Schoolcraft County Road Commission's discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

### Overview of the Financial Statements

This annual report consists of four parts--Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

### Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

## **SCHOOLCRAFT COUNTY ROAD COMMISSION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### Reporting the Road Commission's Major Fund

The fund financial statements begin on page eight and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental fund type.

- **Governmental Fund**--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

#### The Road Commission as a Whole

The Road Commission's net assets increased approximately 1.79% or \$113,618 from \$6,349,493 to \$6,463,111 for the year ended September 30, 2005. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, decreased \$405,224. The primary reason for the decrease was the lack of federal project funds and a lower gain on equipment disposal. The investment in capital assets-net of related debt increased by \$518,842. This was primarily due to the additions of \$1,091,773 being more than the depreciation of \$715,602, and a reduction in debt related to capital assets of \$145,926.

## SCHOOLCRAFT COUNTY ROAD COMMISSION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Net assets as of the year ended September 30, 2005, compared to the prior year are as follows:

	Governmental Activities 09/30/04	Governmental Activities 09/30/05	Variance Increase (Decrease)
Assets			
Current and Other Assets	\$ 2,885,529	\$ 2,265,083	\$ (620,446)
Net Capital Assets	<u>7,060,816</u>	<u>7,433,732</u>	<u>372,916</u>
Total Assets	<u>9,946,345</u>	<u>9,698,815</u>	<u>(247,530)</u>
Liabilities			
Current Liabilities	1,177,902	354,852	(823,050)
Long-Term Liabilities	<u>2,418,949</u>	<u>2,880,852</u>	<u>461,903</u>
Total Liabilities	<u>3,596,851</u>	<u>3,235,704</u>	<u>(361,147)</u>
Net Assets			
Invested in Capital Assets			
Net of Related Debt	4,754,834	5,273,676	518,842
Restricted	<u>1,594,659</u>	<u>1,189,435</u>	<u>(405,224)</u>
Total Net Assets	<u>\$ 6,349,493</u>	<u>\$ 6,463,111</u>	<u>\$ 113,618</u>



## SCHOOLCRAFT COUNTY ROAD COMMISSION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Changes in Net Assets

A summary of changes in net assets for the year ended September 30, 2005, compared to the prior year follows:

	Governmental Activities 2004	Governmental Activities 2005	Increase (Decrease)
Program Revenue			
Licenses and Permits	\$ 5,070	\$ 6,515	\$ 1,445
Federal Grants	288,770		(288,770)
State Grants	2,373,678	2,391,492	17,814
Contributions From Local Units	62,995	40,214	(22,781)
Charges for Services	1,068,764	1,193,424	124,660
Investment Earnings	24,591	46,722	22,131
Reimbursements		58	58
General Revenue			
Insurance Recoveries		6,533	6,533
Gain on Equipment Disposal	215,813	20,783	(195,030)
Sale of Land and Buildings	10,001		(10,001)
Total Revenue	4,049,682	3,705,741	(343,941)
Expenses			
Primary Road Maintenance	933,966	1,061,255	127,289
Local Road Maintenance	620,466	761,219	140,753
State Trunkline Maintenance	957,405	981,489	24,084
Net Equipment Expense	360,845	381,291	20,446
Net Administrative Expense	164,039	123,853	(40,186)
Private Driveway Snow Plowing	28,193	28,453	260
Non-Road Project	144,692		(144,692)
Infrastructure Depreciation	172,145	207,310	35,165
Compensated Absences	18,221	(50,363)	(68,584)
Interest Expense	108,595	97,616	(10,979)
Total Expenses	3,508,567	3,592,123	83,556
Change in Net Assets	\$ 541,115	\$ 113,618	\$ (427,497)

#### The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

## **SCHOOLCRAFT COUNTY ROAD COMMISSION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the year ended September 30, 2005, the fund balance of the General Operations Fund decreased \$455,587 as compared to a decrease of \$8,614 in the fund balance for the year ended September 30, 2004. Total operating revenues were \$3,705,741, a decrease of \$343,941 as compared to last year. This change in revenues resulted primarily from a decrease in Michigan Transportation Fund revenue, decreases in Federal STP and Category D money and State EDF money, and lower Township Contributions.

Total expenditures were \$4,161,328, an increase of \$103,031 as compared to last year. This change in expenditures is primarily due to increased fuel costs for the current year.

#### **Budgetary Highlights**

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final revenue budget for 2005 was higher than the original budget by \$402,538. This was due, in large part, to the increase in State Maintenance Revenues and the Sale of State Buyback-Federal Exchange Funds of 75 cents on the dollar. The actual revenue recognized during the current year was higher than the final amended budget by \$2,203. There were immaterial variances in all revenue items.

The final amended expenditure budget for the current year was \$491,960 higher than the original budget, primarily due to primary road routine and preventive maintenance expenditures. There was also an increase in local road routine and preventive maintenance expenditures. The actual expenditures recognized during the current year were less than the final amended budget by \$29,172. There were no unfavorable variances in any expenditure line-items.

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Capital Assets and Debt Administration

#### Capital Assets

As of September 30, 2005 (year end), the Road Commission had \$7,433,732 invested in capital assets, compared to the prior year, as follows:

	2004	2005	Total Percentage Change 2004-2005
Capital Assets Not Being Depreciated			
Land	\$ 46,065	\$ 46,065	0.00%
Infrastructure--Land Improvements	562,209	768,748	36.74%
Subtotal	608,274	814,813	33.95%
Capital Assets Being Depreciated			
Land Improvements	50,519	50,519	0.00%
Buildings	3,450,151	3,465,028	0.43%
Road Equipment	3,747,249	3,931,884	4.93%
Shop Equipment	122,485	120,708	-1.45%
Office Equipment	36,055	34,265	-4.96%
Engineers Equipment	16,865	16,865	0.00%
Depletable Assets	69,508	69,508	0.00%
Infrastructure	2,746,733	3,350,738	21.99%
Subtotal	10,239,565	11,039,515	7.81%
Total Capital Assets	10,847,839	11,854,328	9.28%
Total Accumulated Depreciation	(3,787,024)	(4,420,596)	16.73%
Total Net Capital Assets	\$ 7,060,815	\$ 7,433,732	5.28%

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$1,091,773. The infrastructure recorded, during 2005, will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions.

This year's major capital asset additions included the following:

Road Preservation/Structural Improvements	\$ 810,544
Road Equipment	257,210
Other Equipment	9,142
Building	14,877
Total Additions	<u>\$1,091,773</u>

## **SCHOOLCRAFT COUNTY ROAD COMMISSION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

There were no installment purchase agreements entered into during 2005. All the equipment was acquired with Road Commission funds.

During 2005, the Road Commission traded in and/or disposed of road equipment with a purchase amount of \$85,285, related depreciation of \$82,029, and net book value of \$3,256.

#### Debt

The Road Commission currently has debt of \$2,456,150 for the year beginning October 1, 2005. Bonds on the building for \$1,850,000, will be paid off over a period of 22 years. The Road Commission currently owes \$310,056 for equipment that will be paid off over the next 3 years. Compensated absences long-term debt amounts to \$296,094.

#### Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2005-2006 budget. One of the factors is the economy. The Road Commission derives approximately 50% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Fund taxes to be distributed. It is estimated that Michigan Transportation Funds will decline in the next fiscal year by 7% due to registrations on trailers and vehicles.

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Schoolcraft County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Schoolcraft County.

#### Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Schoolcraft County Road Commission administrative offices at Tannery Location, East Road, Manistique, Michigan 49854, telephone 906-341-5634.

**SCHOOLCRAFT COUNTY ROAD COMMISSION**  
**STATEMENT OF NET ASSETS**  
**September 30, 2005**

**EXHIBIT A**

**ASSETS**

Cash	\$ 752,000
Investments	425,490
Accounts Receivable	
Interest	8,686
State--Trunkline Maintenance	52,718
State--Trunkline Non-Maintenance	8,655
Michigan Transportation Fund	302,074
Due on County Road Agreements	389,610
Sundry Accounts	20,782
Inventories	
Road Materials	165,866
Equipment Parts and Materials	80,513
Prepaid Expenses	32,289
Discount on Bond Amortization	26,400
Capital Assets (Net of Accumulated Depreciation)	<u>7,433,732</u>
Total Assets	<u>9,698,815</u>

**LIABILITIES**

Current Liabilities	
Accounts Payable	101,561
Due to State of Michigan	139
Accrued Liabilities	61,824
Driveway Snow Plowing Deposits	12,012
Advances From Others	13,626
Deferred Revenue	
State Buy-Back Funds	75,000
Forest Road Funds	90,690
Noncurrent Liabilities	
Advance From State	424,702
Bonds Payable--Due in One Year	50,000
Bonds Payable--Due in More Than One Year	1,800,000
Installment Purchase Agreements Payable--Due in One Year	99,784
Installment Purchase Agreements Payable--Due in More Than One Year	210,272
Vested Employee Benefits Payable	<u>296,094</u>
Total Liabilities	<u>3,235,704</u>

**NET ASSETS**

Investment in Capital Assets	
Net of Related Debt	5,273,676
Restricted for County Roads	<u>1,189,435</u>
Total Net Assets	<u>\$ 6,463,111</u>

**The Notes to Financial Statements are an integral part of this statement.**

**SCHOOLCRAFT COUNTY ROAD COMMISSION**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2005**

**EXHIBIT B**

Program Expenses	
Primary Road Routine and Preventive Maintenance	\$ 1,061,255
Local Road Routine and Preventive Maintenance	761,219
State Trunkline Maintenance	981,489
Private Driveway Plowing	28,453
Net Equipment Expense	381,291
Net Administrative Expense	123,853
Infrastructure Depreciation	207,310
Compensated Absences	(50,363)
Interest Expense	97,616
	<hr/>
Total Program Expenses	3,592,123
	<hr/>
Program Revenue	
Charges for Services	
License and Permits	6,515
Charges for Services	1,193,332
Operating Grants and Contributions	
Michigan Transportation Funds	1,915,492
Investment Earnings	46,872
Capital Grants and Contributions	
State Grants	476,000
Contributions	40,214
	<hr/>
Total Program Revenue	3,678,425
	<hr/>
Net Program Revenue	86,302
	<hr/>
General Revenue	
Insurance Recoveries	6,533
Gain on Equipment Disposal	20,783
	<hr/>
Total General Revenue	27,316
	<hr/>
Change in Net Assets	113,618
	<hr/>
Net Assets	
Beginning of Year	6,349,493
	<hr/>
End of Year	\$6,463,111
	<hr/>

**The Notes to Financial Statements are an integral part of this statement.**

**SCHOOLCRAFT COUNTY ROAD COMMISSION**  
**BALANCE SHEET**  
**September 30, 2005**

**EXHIBIT C**

**GOVERNMENTAL**  
**FUND TYPE**

**ASSETS**

Cash	\$1,177,490
Receivables	
State Trunkline Maintenance	52,718
Michigan Transportation Fund	302,074
State Department of Transportation--Other	8,655
Due on County Road Agreements	389,610
Interest	8,686
Sundry Accounts	20,782
Inventories	
Road Materials	165,866
Equipment Parts and Materials	80,513
Prepaid Expenses	32,289
Unamortized Bond Discount	26,400
	<hr/>
Total Assets	<u>\$2,265,083</u>

**LIABILITIES AND FUND EQUITY**

Liabilities	
Accounts Payable	\$ 101,561
Accrued Interest Payable	16,651
Accrued Liabilities	45,173
Due to State of Michigan	139
Advances	
Driveway Plowing	12,012
State of Michigan	424,702
Other	13,626
Deferred Revenue	
Forest Road Funds	90,690
State Buy Back Program--Federal Aid Exchange	75,000
	<hr/>
Total Liabilities	<u>779,554</u>
Fund Equities	
Fund Balance	
Reserved for Long-Term Receivables	248,657
Reserved for Inventory	246,379
Reserved for Prepaid Expenses	32,289
Unreserved and Undesignated	958,204
	<hr/>
Total Fund Equities	<u>1,485,529</u>
	<hr/>
Total Liabilities and Fund Equities	<u>\$2,265,083</u>

**The Notes to Financial Statements are an integral part of this statement.**

**SCHOOLCRAFT COUNTY ROAD COMMISSION  
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO  
THE STATEMENT OF NET ASSETS  
For the Year Ended September 30, 2005**

**EXHIBIT D**

Total Governmental Fund Balance	\$ 1,485,529
---------------------------------	--------------

Amounts reported for governmental activities in the Statement of Net Assets are  
are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	7,433,732
--	-----------

Other long-term assets are not available to pay current period expenditures and, therefore, are not reported in the funds.	<u>(2,456,150)</u>
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Net Assets of Governmental Activities	<u><u>\$ 6,463,111</u></u>
---------------------------------------	----------------------------

**The Notes to Financial Statements are an integral part of this statement.**



**SCHOOLCRAFT COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
For the Year Ended September 30, 2005**

**EXHIBIT E**

	<u>Operating Fund</u>
Revenues	
Licenses and Permits	\$ 6,515
State Grants	2,391,492
Contributions From Local Units	40,214
Charges for Services	1,026,936
Interest and Rents	46,872
Other Revenue	<u>187,179</u>
Total Revenues	<u>3,699,208</u>
Expenditures	
Public Works	4,148,104
Capital Outlay--Net	(230,318)
Debt Service	<u>243,542</u>
Total Expenditures	<u>4,161,328</u>
Excess of Revenues Over (Under) Expenditures	<u>(462,120)</u>
Other Financing Sources	
Insurance Recoveries	<u>6,533</u>
Total Other Financing Sources	<u>6,533</u>
Excess of Revenues and Other Financing Sources Over Expenditures	(455,587)
Fund Balance--October 1, 2004	<u>1,941,116</u>
Fund Balance--September 30, 2005	<u><u>\$ 1,485,529</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**SCHOOLCRAFT COUNTY ROAD COMMISSION  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2005**

**EXHIBIT F**

Net Change in Fund Balance--Total Governmental Funds	\$(455,587)
--	-------------

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	372,916
Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.	

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the Statement of Net Assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the Statement of Net Assets.	145,926
---	---------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense)	<u>50,363</u>
--	---------------

Change in Net Assets of Governmental Activities	<u><u>\$ 113,618</u></u>
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**The Notes to Financial Statements are an integral part of this statement.**

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Schoolcraft County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Schoolcraft County Road Commission.

### NOTE A--REPORTING ENTITY

The Schoolcraft County Road Commission, which is established pursuant to the County Road Law, Michigan Compiled Laws (MCL) 224.1, is governed by an elected 3 member board of county road commissioners. The Road Commission may not issue debt or levy a tax without the approval of the county board of commissioners.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Schoolcraft County Road Commission, a discretely presented component unit of Schoolcraft County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Schoolcraft County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

#### Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; 2) Michigan Transportation Funds (MTF), State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

#### Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan Transportation Funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

#### Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

#### Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenses in both the government-wide and fund financial statements.

#### Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Schoolcraft County Road Commission as assets with an initial individual cost of more than \$250 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated be reported prospectively. The Schoolcraft County Road Commission, beginning with the fiscal year ended September 30, 2002, has capitalized each current year's infrastructure, as required by GASB No. 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission has opted to not retroactively capitalize the major infrastructure assets prior to October 1, 2001, as permitted by GASB No. 34 for phase 3 governments.

#### Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### Budgetary Procedures

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the board of county road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer (engineer/manager) prepares and submits a proposed operating budget to the board of county road commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The board has authorized the chief administrative officer to amend the Road Commission budget, when necessary, without increasing the overall budget, by transferring up to 25% from one line-item to another. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

The Road Commission has not complied with certain provisions of Public Act 2 of 1968, as amended. Expenditures were incurred in excess of the amount appropriated in the amended budget for one activity of the County Road Fund as follows:

	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance (Unfavorable)</u>
County Road Fund			
Equipment Expense--Net	\$378,000	\$381,291	\$(3,291)

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE D--DEPOSITS AND INVESTMENTS

Deposits are carried at cost. Deposits of the County Road Fund are made in three banks in the name of the Schoolcraft County Treasurer. Public Act 20 of 1943, as amended, authorizes the county treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; commercial paper rated by two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase; and obligations of the State of Michigan or its political subdivisions which are rated investment grade. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Road Commission deposits are in accordance with statutory authority.

The board of county road commissioners has adopted an investment policy similar to the county's policy in accordance with investment provisions in Public Act 20 of 1943.

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations. The risk disclosures for the Road Commission deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 40 are as follows:

At year end (and during the year), the Road Commission did not have any investments, the deposits were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposits)	<u>\$ 1,177,490</u>
Total	<u><u>\$ 1,177,490</u></u>

The bank balance of the Road Commission's deposits is \$1,184,737, of which \$200,994 is covered by Federal depository insurance.

### Investments Authorized by the Road Commission's Investment Policy

The road commission's investment policy authorizes investment in all those that are authorized by law. As stated above, the Road Commission did not have any investments in the fiscal year ended September 30, 2005.

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE D--CASH AND INVESTMENTS (Continued)

#### Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Road Commission's investment policy does not contain specific provisions to limit their exposure to credit risk.

#### Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Road Commission's investment policy does not contain specific provisions to limit their exposure to interest rate risk.

#### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer where the investment is 5% or greater.

The Road Commission's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s) or a specific class of securities.

#### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the Road Commission's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law does not contain legal requirements that would limit the exposure to custodial credit risk for investments. However, the Road Commission's investment policy does contain a safekeeping and custody section that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The Road Commission is not exposed to custodial credit risk for investments.



# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE E--RESERVE FOR LONG-TERM RECEIVABLES

An estimated \$248,657 of the amount recorded as "Due on County Road Agreements" is not expected to be received within one year and, accordingly, is reserved from the fund balance available for current operations at September 30, 2005.

### NOTE F--CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	Account Balances 10/01/04	Additions	Deductions	Account Balances 09/30/05
Capital Assets Not Being Depreciated				
Land	\$ 46,065			\$ 46,065
Infrastructure--Land Improvements	562,209	\$ 206,539		768,748
Subtotal	608,274	206,539	\$ -	814,813
Capital Assets Being Depreciated				
Land Improvements	50,519			50,519
Buildings	3,450,151	14,877		3,465,028
Road Equipment	3,747,249	257,210	72,575	3,931,884
Shop Equipment	122,485	6,773	8,550	120,708
Office Equipment	36,055	2,369	4,159	34,265
Engineer's Equipment	16,865			16,865
Depletable Assets	69,508			69,508
Infrastructure--Bridges	28,031			28,031
Infrastructure--Roads	2,718,702	604,005		3,322,707
Total	10,239,565	885,234	85,284	11,039,515
Less Accumulated Depreciation				
Land Improvements	3,368	3,368		6,736
Building	487,859	102,000		589,859
Road Equipment	2,794,652	394,288	70,375	3,118,565
Shop Equipment	79,102	7,702	8,246	78,558
Office Equipment	17,921	3,469	3,409	17,981
Engineer's Equipment	14,685	833		15,518
Depletable Assets	22,403			22,403
Infrastructure--Bridges	4,672	2,336		7,008
Infrastructure--Roads	362,362	201,606		563,968
Total	3,787,024	715,602	82,030	4,420,596
Net Capital Assets Being Depreciated	6,452,541	885,234	718,856	6,618,919
Total Net Capital Assets	\$ 7,060,815	\$1,091,773	\$ 718,856	\$ 7,433,732

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE F--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$ 394,288
Indirect Equipment	
Shop Building	99,095
Shop Equipment	7,702
State Salt Shed	2,905
Net Administrative Expense	
Engineers Equipment	833
Office Equipment and Furniture	3,469
Land Improvements	3,368
Infrastructure	<u>203,942</u>
Total Depreciation Expense	<u>\$ 715,602</u>

### NOTE G--LONG-TERM DEBT

The general long-term debt obligations of the Schoolcraft County Road Commission, and changes therein, may be summarized as follows:

	<u>Balance 10/01/04</u>	<u>Additions (Reductions)</u>	<u>Balance 09/30/05</u>	<u>Due in One Year</u>
Bonds Payable				
Michigan Transportation Fund Bonds Series 2002	\$1,900,000	\$ (50,000)	\$1,850,000	\$ 50,000
Installment Purchase Contract				
Wells Fargo 2003 Equipment	405,982	(95,926)	310,056	99,784
Vested Employee Benefits				
Vacation and Sick Leave	<u>346,457</u>	<u>(50,363)</u>	<u>296,094</u>	
Totals	<u>\$2,652,439</u>	<u>\$ (196,289)</u>	<u>\$2,456,150</u>	<u>\$ 149,784</u>

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--GENERAL LONG-TERM DEBT (Continued)

#### Bonds Payable

#### Michigan Transportation Fund Bonds, Series 2002

The Road Commission financed the construction of a new building through the issuance of Michigan Transportation Fund Bonds through Bank One Trust Company. The terms and annual principal and interest requirements are as follows:

Terms: Date of issue was July 1, 2002 in the amount of \$2,000,000 at variable interest rates paid semi-annually with interest ranging from 2% to 4.85% commencing on February 1, 2003 through August 1, 2027 and annual principal payments ranging from \$50,000 to \$135,000.

Year	Principal 8/1	Interest		Annual Total
		2/1	8/1	
2006	\$ 50,000	\$ 40,692	\$ 40,692	\$ 131,384
2007	55,000	40,055	40,055	135,110
2008	55,000	39,271	39,271	133,542
2009	55,000	38,405	38,405	131,810
2010	60,000	37,470	37,470	134,940
2011	60,000	36,390	36,390	132,780
2012	65,000	35,280	35,280	135,560
2013	65,000	34,045	34,045	133,090
2014	70,000	32,745	32,745	135,490
2015	75,000	31,310	31,310	137,620
2016	75,000	29,735	29,735	134,470
2017	80,000	28,122	28,122	136,244
2018	85,000	26,362	26,362	137,724
2019	90,000	24,450	24,450	138,900
2020	95,000	22,380	22,380	139,760
2021	100,000	20,171	20,171	140,342
2022	105,000	17,796	17,796	140,592
2023	110,000	15,250	15,250	140,500
2024	115,000	12,500	12,500	140,000
2025	120,000	9,625	9,625	139,250
2026	130,000	6,625	6,625	143,250
2027	135,000	3,375	3,375	141,750
Total	<u>\$1,850,000</u>	<u>\$582,054</u>	<u>\$582,054</u>	<u>\$3,014,108</u>

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--LONG-TERM DEBT (Continued)

#### Loans Payable--Equipment Purchases

The Road Commission financed the purchase of six trucks through Wells Fargo Equipment Finance, Inc., which disbursed the payment directly to the vendor and has pledged the equipment as security on September 22, 2003. The terms and annual principal and interest requirements are as follows:

Terms: Purchase price of \$504,647 at 3.95% interest from October 2003 to June 2008, with five annual payments of \$112,315.66 beginning June 30, 2004.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 99,784	\$12,532	\$112,316
2007	103,798	8,518	112,316
2008	<u>106,474</u>	<u>5,842</u>	<u>112,316</u>
Total	<u>\$310,056</u>	<u>\$26,892</u>	<u>\$336,948</u>

#### Vested Employee Vacation Benefits

Vacation benefits are earned in varying amounts depending on the employee's years of service. Prior to January 1, 1993, the Road Commission's vacation policy required all vacation benefits to be used within the calendar year in which they were credited. New vacation policies effective on January 1, 1993 provided for all employees to be credited on January 1, 1993 with the vacation benefits they earned for the year 1992, and the 1993 vacation benefits to be credited on a per month basis with employees permitted to accumulate up to a maximum of 2 years of vacation benefits. The liability recorded in the long-term debt for vacation earned but not used, as of September 30, 2005, totaled \$93,129.

#### Vested Employee Sick Leave Benefits

Sick leave benefits are earned at the rate of 1 day for each calendar month in which the employee has worked at least 12 days and shall be accumulated up to 105 days. Upon reaching the maximum 105 days for sick leave, an additional two days per year will be granted for each year of agreement. Maximum sick days will be 111. Upon retirement or death, an employee, or his estate, shall be paid for 100% of accumulated sick leave. The accumulated sick leave of \$202,965 recorded in the long term debt consists of 100% of the maximum accumulated sick leave at September 30, 2005.

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--DEFERRED COMPENSATION PLAN

The Schoolcraft County Board of Road Commissioners offers all Road Commission employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plan were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrator (PEBSCO) is an agent of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements.

### NOTE I--EMPLOYEES' RETIREMENT SYSTEM

#### Description of Plan and Plan Assets

The Schoolcraft County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% times the final average compensation (FAC) with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the calendar year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, MCL 46.12(a), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

#### Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The Road Commission is required to contribute at an actuarially determined rate. At December 31, 2002, a rate of 17.19% of annual compensation was actuarially determined, to be applied to annual compensation for calendar year 2004.

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE I--EMPLOYEES' RETIREMENT SYSTEM (Continued)

#### Annual Pension Cost

For the calendar year ended December 31, 2004, the Road Commission's annual pension cost was \$243,432, which was equal to the Road Commission's actual contributions. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

#### Three Year Trend Information for GASB Statement No. 27

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	\$ 135,250	100%	\$0
2003	176,935	100%	\$0
2004	243,432	100%	\$0

#### Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/02	\$ 6,019,534	\$ 7,865,688	\$ 1,846,154	77%	\$ 1,225,041	151%
12/31/03	6,144,712	8,515,486	2,370,774	72%	1,276,177	186%
12/31/04	6,305,405	9,196,675	2,891,270	69%	1,416,124	204%

## SCHOOLCRAFT COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE J--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission is a member of the Michigan County Road Commission Self Insurance Pool (Pool) established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protections, claims administration and risk management and loss control services pursuant to Public Act 138 of 1982.

The Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, trunkline liability, errors and omissions and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund.

At September 30, 2005, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years. Settled claims for the Road Commission have not exceeded the amount of insurance coverage in any of the past 4 years.

#### NOTE K--CONTINGENT LIABILITIES

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

## SCHOOLCRAFT COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE L--POST-EMPLOYMENT BENEFITS

The Road Commission provides post-employment health care benefits in accordance with the labor contract and personnel policy as follows:

Effective January 1, 2000, upon retirement or disability retirement, from age 55 to 65 each employee will receive single subscriber health insurance benefits at a cost of 100% paid by the Road Commission. In order to be eligible between the ages of 55 to 65, the retiree must have worked a minimum of 15 years with the Road Commission. After age 60, years of service is not an eligibility requirement. At age 65 or older, the Road Commission will pay \$50 towards retirees' supplemental insurance. There were 11 employees that qualified during the year ended September 30, 2005. The total cost was \$78,092 and the amount reimbursed by retirees was \$33,925 with a net cost to the Road Commission of \$44,167. The expenditures are recognized as the insurance premiums become due.



**SCHOOLCRAFT COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended September 30, 2005**

**EXHIBIT G**

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 5,000	\$ 6,500	\$ 6,515	\$ 15
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,325,000	1,360,000	1,370,427	10,427
Local Road	420,000	410,000	409,732	(268)
Snow Removal	120,000	126,000	125,333	(667)
Economic Development Fund				
Forest Road Funds (E)	180,000	180,000	180,000	-
State Buyback--Federal Aid Exchange	175,000	296,000	296,000	-
Contributions--Local Units				
Townships	200,000	42,000	40,214	(1,786)
Charges for Services				
State Trunkline Maintenance	750,000	920,000	916,902	(3,098)
State Trunkline Non-Maintenance	70,000	82,000	81,516	(484)
Private Drive Snow Removal	25,000	29,000	28,452	(548)
Salvage Sales	1,000	100	66	(34)
Interest and Rents				
Interest Earned	20,000	47,000	46,722	(278)
Rent	-	-	150	150
Other Revenue				
Contribution From Private Sources	-	166,338	166,338	-
Refunds and Rebates	-	-	58	58
Gain on Equipment Disposal	-	22,000	20,783	(1,217)
Total Operating Revenue	3,301,000	3,696,938	3,699,208	2,270
Other Financing Sources				
Insurance Recoveries	-	6,600	6,533	(67)
Total Other Financing Sources	-	6,600	6,533	(67)
Total Operating Revenue and Other Financing Sources	3,301,000	3,703,538	<u>\$ 3,705,741</u>	<u>\$ 2,203</u>
Fund Balance--October 1, 2004	1,643,431	1,941,101		
Total Budget	<u>\$ 4,944,431</u>	<u>\$ 5,644,639</u>		

**The Notes to Financial Statements are an integral part of this statement.**

**SCHOOLCRAFT COUNTY ROAD COMMISSION**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL**  
**BUDGETARY COMPARISON SCHEDULE**  
**For the Year Ended September 30, 2005**

**EXHIBIT H**

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvement	\$ 370,000	\$ 400,000	\$ 396,638	\$ 3,362
Routine and Preventive Maintenance	600,000	1,064,000	1,061,255	2,745
Local Road				
Preservation/Structural Improvement	150,000	415,000	413,906	1,094
Routine and Preventive Maintenance	513,540	763,000	761,219	1,781
State Trunkline Maintenance	750,000	920,000	899,973	20,027
State Trunkline Non-Maintenance	70,000	82,000	81,516	484
Private Drive Snow Removal	25,000	28,500	28,453	47
Equipment Expense--Net	124,000	378,000		
Direct			\$ 999,034	
Indirect			406,491	
Operating			220,401	
Less: Equipment Rentals			<u>(1,244,635)</u>	
			381,291	(3,291)
Distributive Expense	800,000	-		-
Administrative Expense--Net	198,000	124,000		
Administrative Expense			230,466	
Less: Handling Charges			(365)	
Overhead--State			(106,244)	
Purchase Discounts			<u>(4)</u>	
			123,853	147
Capital Outlay--Net	(150,000)	(229,000)		
Capital Outlay			281,229	
Less: Depreciation Credits			(508,292)	
Equipment Retirements			<u>(3,255)</u>	
			(230,318)	1,318
Debt Service				
Principal Payments	145,926	145,926	145,926	-
Interest Expense	102,074	99,074	97,616	1,458
Total Expenditures	3,698,540	4,190,500	<u>\$ 4,161,328</u>	<u>\$ 29,172</u>
Fund Balance--September 30, 2005	1,245,891	1,454,139		
Total Budget	<u>\$ 4,944,431</u>	<u>\$ 5,644,639</u>		

**The Notes to Financial Statements are an integral part of this statement**

**SCHOOLCRAFT COUNTY ROAD COMMISSION**  
**ANALYSIS OF CHANGES IN FUND BALANCES**  
**For the Year Ended September 30, 2005**

**EXHIBIT I**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$1,792,452	\$ 838,297	\$1,074,992	\$ 3,705,741
Total Expenditures	1,537,980	1,345,056	1,278,292	4,161,328
Excess of Revenues Over (Under) Expenditures	254,472	(506,759)	(203,300)	(455,587)
Other Financing Sources (Uses) Optional Transfers	(411,000)	411,000		-
Total Other Financing Sources (Uses)	(411,000)	411,000	-	-
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	(156,528)	(95,759)	(203,300)	(455,587)
Fund Balance--October 1, 2004	1,242,454	112,867	585,795	1,941,116
Fund Balance--September 30, 2005	\$1,085,926	\$ 17,108	\$ 382,495	\$ 1,485,529

**SCHOOLCRAFT COUNTY ROAD COMMISSION**  
**ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES**  
**For the Year Ended September 30, 2005**

**EXHIBIT J**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Permits			\$ 6,515	\$ 6,515
State Grants				
Michigan Transportation Fund				
Engineering	\$ 7,656	\$ 2,344		10,000
Allocation	1,370,427	409,732		1,780,159
Snow Removal		125,333		125,333
Economic Development Fund				
Forest Road Funds (E)	88,000	92,000		180,000
State Buyback--Federal Aid Exchange	296,000			296,000
Contributions--Local Units				
Townships		40,214		40,214
Charges for Services				
State Trunkline Maintenance			916,902	916,902
State Trunkline Non-Maintenance			81,516	81,516
Private Drive Snow Removal			28,452	28,452
Salvage Sales			66	66
Interest and Rents				
Interest Earned	30,369	2,336	14,017	46,722
Rent			150	150
Other Revenue				
Contribution From Private Sources		166,338		166,338
Refunds/Rebates			58	58
Gain on Equipment Disposal	-		20,783	20,783
Total Operating Revenue	1,792,452	838,297	1,068,459	3,699,208
Other Financing Sources				
Insurance Recoveries	-		6,533	6,533
Total Other Financing Sources	-	-	6,533	6,533
Total Revenue and Other Financing Sources	\$ 1,792,452	\$ 838,297	\$ 1,074,992	\$ 3,705,741

**SCHOOLCRAFT COUNTY ROAD COMMISSION**  
**ANALYSIS OF EXPENDITURES**  
**For the Year Ended September 30, 2005**

**EXHIBIT K**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvement	\$ 396,638			\$ 396,638
Routine and Preventive Maintenance	1,061,255			1,061,255
Local Road				
Preservation/Structural Improvement		\$ 413,906		413,906
Routine and Preventive Maintenance		761,219		761,219
State Trunkline Maintenance			\$ 899,973	899,973
State Trunkline Non-Maintenance			81,516	81,516
Private Snow Plowing			28,453	28,453
Equipment Expense--Net (Per Exhibit H)	143,899	114,655	122,737	381,291
Administrative Expense--Net (Per Exhibit H)	68,577	55,276		123,853
Capital Outlay--Net (Per Exhibit H)	(264,874)		34,556	(230,318)
Debt Service				
Principal Payments	50,000		95,926	145,926
Interest Payments	82,485		15,131	97,616
Total Expenditures	\$ 1,537,980	\$ 1,345,056	\$ 1,278,292	\$ 4,161,328



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

November 23, 2005

Board of County Road Commissioners  
Schoolcraft County  
P.O. Box 160  
Manistique, Michigan 49854

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed in Accordance With  
Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Schoolcraft County Road Commission, a component unit of Schoolcraft County, as of and for the year ended September 30, 2005, and have issued our report thereon dated November 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Schoolcraft County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether the Schoolcraft County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an

opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Schoolcraft County Board of Road Commissioners, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', is positioned above the printed name.

Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division